

LN-1070-KO
FILE COPY

DOCUMENT OF INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

Not For Public Use

Report No. P-1546-KO

REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
TO THE
REPUBLIC OF KOREA
FOR A
SECONDARY CITIES REGIONAL PROJECT

December 24, 1974

This report was prepared for official use only by the Bank Group. It may not be published, quoted or cited without Bank Group authorization. The Bank Group does not accept responsibility for the accuracy or completeness of the report.

Currency Unit = Won

Until December 7, 1974:

Won 400 = US\$1.00

Won 1,000 = US\$2.50

Won 1,000,000 = US\$2,500

After December 7, 1974:

Won 485 = US\$1.00

Won 1,000 = US\$2.06

Won 1,000,000 = US\$2,061.86

Fiscal Year = January 1 - December 31

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO
THE REPUBLIC OF KOREA FOR A SECONDARY CITIES REGIONAL PROJECT

1. I submit the following report and recommendation on a proposed loan to the Republic of Korea for the equivalent of US\$15.0 million to help finance a secondary cities regional project. The loan would have a term of 25 years, including seven years of grace, with interest at 8 percent per annum.

PART I - THE ECONOMY

2. The latest economic report ("Current Economic Position and Prospects of the Republic of Korea") was distributed under cover of R74-42 dated March 4, 1974. The report is based on the findings of an economic mission that visited Korea in September/October 1973, and again in January 1974 to discuss the report in draft. The Country Data sheets are attached as Annex I.

3. Korea's economic record during the last decade has undoubtedly been one of the most impressive among the developing countries. GNP growth averaged 9.5 percent per annum during 1963-72 and average per capita income during 1973, at about US\$370, was in real terms more than double the level of ten years ago. This rapid increase in per capita income was, of course, mainly due to the large gains in output, but it was facilitated by a sharp decline in the rate of population growth from nearly three percent in the early sixties to less than two percent at present. A key element in the rapid expansion of the Korean economy has been the growth of manufactured goods exports from less than US\$10 million in the early 1960s to US\$2,843 million in 1973. Manufactured exports, which now provide 90 percent of merchandise exports, constitute about 30 percent of manufactured output. The structural change in the Korean economy is highlighted by the sharp rise in the ratio of manufacturing output to GNP which now stands at 27 percent (compared to 17 percent in 1963). Under the impetus of sharply rising manufactured goods exports, the ratio of merchandise exports to GNP rose steadily to 26 percent in 1973 from less than 4 percent a decade earlier.

4. The rapid growth that has transformed the Korea economy from one characterized by dependence on agriculture and sluggish growth in the post-Korean-war years to one of dynamic growth based on increasing industrialization has not been achieved without strain. Korea began to face serious resource management problems toward the end of the Sixties because the heavy investment required to sustain rapid economic growth was well beyond its own

savings capability. With a sixfold growth in real investment and a rise in the ratio of investment to GNP from 12 percent to 25 percent over the last decade, the external resource requirements have grown very considerably. In spite of the remarkable increase in export earnings, the ratio of public debt service payments to total foreign exchange receipts increased sharply during the Sixties to reach a peak of 20.5 percent in 1971 due, in part, to excessive reliance on suppliers' credits during 1965-70. The absolute gap in incomes between urban and rural areas, where nearly half the population still lives, widened until 1970 despite a massive migration to the cities. Because of its increasing concern with these problems, the Government, in the early Seventies, laid stress on "harmony in growth, stabilization and a balanced economy". A deliberate effort was made to reduce the rate of increase of investment, to increase the inflow of capital from official sources while imposing restrictions on suppliers' credits, and to improve the balance of payments position through substantial exchange rate adjustments. These measures, combined with a reduction in Government real investment and the uncertainty in the Korean business community about export prospects, produced a marked slowdown in the economy. Even with a continued high rate of export expansion (38 percent per annum), GNP growth averaged only 8 percent per annum during 1970-72 compared with nearly 12 percent in the preceding three years. Real investment stagnated during 1970-71 and the ratio of fixed investment to GNP dropped sharply from 27 percent in 1969 to 20 percent in 1972. The general economic slowdown did not, however, result in abatement of inflationary pressures; the consumer price index rose by almost 14 percent in 1971. The Government, therefore, took further measures in August 1972 to check inflation and to moderate the disruptive financial effect of the economic slowdown on the business sector.

5. Even by Korean standards, 1973 was an exceptional year which set new records of growth in GNP, exports and savings. Real GNP growth during 1973 was 16.9 percent due mainly to an unprecedented increase in exports and a marked revival in fixed investment. Merchandise exports in 1973 rose by 92 percent compared to 1972. The national saving rate, which had dropped to about 15 percent in 1972, was 21 percent in 1973, thus surpassing the previous peak set in 1969. Even though imports recorded a 73 percent growth in 1973, foreign savings measured by the deficit on the goods and services account amounted to about 5 percent of GNP and were less than 20 percent of total investment. Compared to the situation in 1968-71 when foreign savings constituted 11-12 percent of GNP and financed 35-40 percent of total investment, Korea had become much less dependent on foreign resources. Moreover, the export expansion and the marked increase in tourism revenues reduced the debt service ratio from 14 percent in 1972 to 10 percent in 1973.

6. The momentum from 1973 carried the economy in the first half of 1974 in which GNP in real terms grew by more than 15 percent over the comparable period of 1973, while export earnings and industrial output in real terms increased by 27 and 30 percent, respectively. (The comparable increases for the first half of 1973 were 66 and 31 percent.)

7. The large increases in the price of petroleum in late 1973 marked the beginning of a downturn in the international economy and signalled a significant change in Korea's short-term prospects. Export orders for the first nine months of 1974 showed a 8-9 percent decline in real terms over a year earlier, and the rate of decline accelerated during May-September.

8. For 1974 as a whole, exports are expected to grow about 12 percent in real terms and about 28 percent in nominal terms. Imports are estimated to grow only about three percent in real terms but the nominal increase is expected to be about 60 percent. This deterioration in the commodity terms of trade is equivalent to about \$561 million, or about 44 percent of the estimated trade gap in 1974. It is also equivalent to a loss of about three percent of GNP in 1974.

9. The Government has moved to help those persons hardest hit by the economic slowdown through employment-creating public works programs, tax reductions and financial aid to small and medium industries, especially those accumulating large inventories. The Government in January 1974 eliminated the general exemption from customs duties available for machinery imports for the export sector and raised the preferential interest rate on export advances. It also acted to reduce imports by increasing taxes on luxury imports and on a number of commodities that are produced domestically. However, finished non-food consumer goods comprise a relatively small share of Korea's total imports (2.2 percent in 1973) and total raw material imports for domestic use excluding food were about 13 percent. Thus, there is little scope for cutting down on non-essential imports.

10. Compared to an increase in total imports in real terms of only three percent in 1974, real increases of 14 and 13 percent, respectively, are forecast for crude oil and raw materials for export. Imports other than oil and raw materials will decline in real terms by three percent.

11. Korea's dependence on imported fuels is not only extremely heavy but is linked to essential industrial and transportation uses. The passenger vehicle fleet is small with only one private passenger vehicle per 152 families. Nonetheless, to reduce demand for petroleum products, tax rates, including tariffs on private cars and petroleum products, were raised substantially.

12. The official estimate of the current account deficit for 1974 is \$1,360 million. Including about \$290 million which is required for the repayment of external debt, the total external resource needs in 1974 are about \$1,650 million. Of this amount, about \$900 million is expected to be covered from official sources, suppliers credits, direct private investment and direct loans to the private sector. Drawings on the IMF gold tranche and use of the oil facility are expected to provide an additional \$144 million. Korea has used \$24 million of the gold tranche with the IMF and \$108 million of the oil facility. The last \$12.0 million of the oil facility is expected to be drawn by the end of the year.

13. The remainder of the gap, about \$750 million, will have to be met by the inducement of additional long-term funds, to the extent possible, and from short-term borrowings through the banking system that will draw down net foreign exchange reserves. Such reserves stood at about \$1 billion at the beginning of 1974 but are expected to have declined to about \$100 million by December 31.

14. Although Korea appears to face a current account deficit in 1975 as large as in 1974, the present economic problems are viewed by the Government as being essentially short-term in nature. An upturn in the economies of Korea's principal trading partners, Japan and U.S., and in international trade is anticipated in the latter half of 1975. The strategy being followed is to minimize the adverse effects on the productive capacity of the manufacturing sector during the current period of slack demand so that when international economic momentum picks up the Korean export sector will be able to respond.

15. On December 7, 1974, the Government took steps to intensify its export promotion activities, stimulate production and maintain employment. The exchange rate was changed from Won 400 to Won 485 per US\$. Export credits for imported raw materials and domestic goods were increased. Prices of petroleum products and electricity (except for households) and railway rates were raised between 31 and 42 percent. In the future, Government approval must be obtained for price increases for 58 selected basic items. The interest rate on time deposits has been increased to stimulate savings, and the bulk of Government investment for 1975 will be undertaken in the first six months of the year to promote employment and offset the slack in the economy. Special credits have been instituted to stimulate private investment and additional financial assistance is being provided to small and medium businesses. About 330,000 new public jobs are being created and preference in hiring is being given to persons in the lower income group. About 87,000 new housing units are to be constructed in 1975 through public programs in addition to the 112,000 originally planned.

16. Korea's ability to obtain foreign funds on the scale required will be a main determinant of whether or not it will be able to adjust to the higher cost of petroleum and other essential imports without a substantial reduction in GNP growth. Some quick-disbursing program aid will be needed in the next year or so in addition to normal project lending if the required amounts are to be available. Servicing additional debt of the magnitude envisaged is not likely to be a serious problem, provided a substantial proportion of external loans is provided by official sources and the terms of loans from private sources are not unduly onerous. On the assumption that about one-third of external loans are from official sources, and that the average maturity of these loans is not less than ten years, the debt service ratio would rise only from 10 percent in 1973 to 14 percent by 1979. But the need for continuous attention to the structure of total debt will remain.

17. The Government is intensifying its efforts to prepare projects suitable for external official financing in the fields of infrastructure, agriculture and regional development. The foreign exchange component of such projects is low, partly because they consist largely of civil works, and Korea's construction industry is efficient and well organized and wins an overwhelming proportion of contracts put out to international competition. Moreover, the construction industry's dependence on imports is expected to lessen in the future. Korea's need for official aid therefore cannot be met if financing is confined to the foreign exchange costs of projects. For this reason the Bank should continue to be prepared to finance, in appropriate cases, a portion of local costs.

18. The details of Korea's present economic situation and its near term prospects will be examined by an economic mission that is scheduled for January 1975.

PART II - BANK GROUP OPERATIONS IN KOREA

19. As of October 31, 1974, Korea had received 15 Bank loans and 8 IDA credits, amounting in total to \$502.2 million in loans and US\$107 million in credits (taking into account cancellations and the refinancing of one IDA credit in a subsequent Bank loan).

20. About one-half of the total has been for the transport sector - \$119.7 million for railways, \$101.5 million for highways and US\$80 million for ports. \$130.5 million has gone to agricultural projects - US\$93 million for irrigation projects, \$7 million for livestock development, US\$10.5 million for the provision of medium- and long-term credit through the National Agriculture Corporation Federation (NACF), \$7 million for seeds production and US\$13.0 million for an integrated agricultural products processing project. The Korean Development Finance Corporation (KDFC) has received US\$95 million in Bank loans for relending to private industry. The balance of US\$82.8 million was for two education projects and a tourism project.

21. IFC has made four investments in Korea and its commitments amount to \$3.4 million in loans and shares. ^{1/} It made its first equity investment in KDFC, of \$0.7 million or 14 percent of KDFC's paid-in capital, at the time the Bank made its first loan to KDFC. A loan of \$1.4 million to, and an equity investment of US\$0.3 million in, the Nonam Silk Co. was made in 1969. In 1971, IFC purchased \$0.6 million of the shares of the Korea Investment and Finance Corporation - an institution whose function is to assist in the development of the capital and money markets. In July 1973, the IFC exercised preemptive rights and purchased at par about US\$335,000 equivalent of KDFC's common stock. In June 1974, IFC approved an investment of \$17.6 million in the Gold Star Company Ltd. consisting of a loan of \$16.0 million and \$1.6 million in equity. Gold Star is a leading electronics manufacturer. IFC is considering investments of \$9 million in Tong Yang Nylon Co., Ltd., about

^{1/} A fifth investment in the Atlas Paper Co. amounting to \$5 million was cancelled at the request of the Company.

\$3.4 million in Hae Un Dae Development Co., Ltd. for hotel development and about \$5.6 million in Korea Securities Finance Corporation.

22. Of total Bank and IDA lending, about \$325.8 million remained undisbursed as at October 31, 1974. Annex II contains a summary statement of Bank loans, IDA credits, and IFC investments as at October 31, 1974 and notes on the execution of ongoing projects. As indicated in the notes, progress on project implementation is generally satisfactory, although difficulties have been encountered with some projects and most seriously with the Pyongtaek-Kumgang and Yong San Gang Irrigation Projects (Loan 600-KO and Loan 795/Credit 283, respectively).

23. The Bank's program for FY75 includes five projects in addition to the proposed secondary cities regional project: a fifth loan to the Korea Development Finance Corporation, a first loan to the Korea Development Bank, a third education loan, and a fifth railway loan. All of these, except the fifth KDFC loan have been appraised. Because of the need for quick disbursing program aid referred to in paragraph 16 above, a program loan will be submitted for consideration by the Executive Director in the first quarter of 1975.

24. The continuing emphasis on agricultural and rural development will be reflected in the programs for the succeeding years FY76 and FY77. The report of the agriculture sector mission (R73-287, dated December 19, 1973) has provided the basis for developing additional high priority agricultural projects. A second livestock project, the second stage of the Yong San Gang Irrigation Project, the Okseo irrigation and regional development project and the Miho Cheon and Naeseong-Cheon watershed development projects have already been identified and are under preparation, and follow-on projects in agricultural credit, livestock and agricultural products processing are also being considered. A possible forestry project has also been identified but problems in project preparation have been encountered which will have to be resolved if the project is to be proceeded with.

25. Another major emphasis in Korea's plans is the development of heavy and chemical industries. Hitherto, the Bank's lending for industry to Korea has been solely through the KDFC. As indicated, a loan for industrial development through a second financial intermediary, the Korea Development Bank (KDB) - a Government-owned institution responsible for the largest share of term lending for industry in Korea, has already been appraised. Also being considered is a loan to the Medium Industry Bank which provides financing to smaller businesses.

26. The development of the industrial and agricultural sectors and of exports will require concurrent infrastructural development. Although the transport sector will be given less emphasis than in the past, the investments required are large and, thus, there is considerable financing for this sector in the proposed program.

27. The share of the Bank Group in Korea's total external debt disbursed and outstanding at the end of 1973 was 6.4 percent, and the share in the total debt service was 3.0 percent in the same period. If the Bank Group lends on average \$240 million annually, its share in total external public

debt outstanding is likely to increase to about 11 percent by the end of 1979 and the debt service due on Bank Group loans will represent about 7 percent of total debt service payments.

28. The Consultative Group continues to be active. Bilateral assistance to Korea increased from \$71 million in 1966 to \$366 million in 1973. The U.S. and Japan continue to be the principal donors having provided more than 90 percent of the total bilateral assistance of \$1,625 million during the 1966-73 period.

PART III - REGIONAL PLANNING IN KOREA

29. A preponderant proportion of Korea's extremely rapid expansion of manufacturing capacity over the last decade or so was concentrated in the areas around Seoul-Incheon and Busan. This concentration was probably unavoidable because of the lack of adequate infrastructure outside these two metropolitan areas which are served by the country's two major ports. By the end of the last decade, about 60 percent of the total industrial labor force worked in establishments located within these two complexes. In recent years, the Government has encouraged the location of industry in other parts of the country, most notably Ulsan and Pohang which together employ some 20 percent of Korea's industrial workers. However, six of the country's nine provinces account for less than a fifth of total industrial employment.

30. It is estimated that, allowing for a certain amount of underemployment in the agricultural sector, the average urban worker (who tends to be employed largely in manufacturing) earns about twice as much as a typical rural worker ^{1/}. The wage-differential has resulted in heavy migration from the rural areas to the few urban centers around which industrial growth has been concentrated. Thus, between 1966-70 the population of Seoul rose by 9.8 percent per annum, that of Busan by 7.2 percent per annum and Daegu's by 6.4 percent per annum compared to the national average increase of 1.9 percent a year. Over half the country's total population of approximately 33 million people lives in the three metropolitan areas. The pattern of immigration has caused a severe strain on urban infrastructure and exacerbated the serious housing shortages in these cities.

31. The Government is aware of the need to increase rural incomes in order to spread the benefits of growth more widely than at present and also to lessen the pressures on cities like Seoul and Busan resulting from heavy immigration from the countryside. Accordingly, one of the major objectives of its Long Term Perspective Plan (1973-81) is to remove the present urban-rural income gap by 1981 by increasing agricultural productivity and providing more off-farm employment. The Government recognizes that the low level of rural incomes is largely due to the limited availability of non-farm employment opportunities. Off-farm sources provided only 17 percent of the total income of rural households in 1972; the comparable figures for

^{1/} See paragraph 21 of Chapter I of the latest Economic Report.

the Republic of China and Japan were 55 percent and 70 percent respectively. The achievement of income parity between urban and rural households would depend not only on an increase in agricultural productivity and a rise in the price-level for agricultural commodities, but perhaps more importantly on raising off-farm employment possibilities by the decentralization of industry.

32. The location of new industry in areas other than those of high urban concentration was one of the major issues studied in the context of the preparation of the National Land Development Plan (1972-81) which was completed in mid-1971. The United Nations Development Programme (UNDP) assisted in the preparation of the Plan by financing a Regional Physical Planning Study which commenced in 1969. The country was divided into eight regions for the purposes of the Study. During its Phase I, the existing distribution of resources within the various regions was inventoried and alternative physical planning schemes, involving the development of regional areas, were studied and broad regional and urban planning guidelines developed.

33. The Study's recommendations were incorporated in the National Land Development Plan which classified national land space both by region and by land use. It established as basic objectives: (a) efficient land-use and development (b) natural protection and conservation and (c) improvement of the living and working environment. Within this framework it set out policies for the location of investments in transportation, communications, urban infrastructure, water resource development, agriculture and forestry. The Plan stressed the importance of achieving balanced development throughout the nation by the dispersion of industries from metropolitan areas to cities having populations of 50,000 - 500,000 and the systematic improvement and expansion of major social overhead capital facilities. While detailed investment plans were not formulated for each of the eight planning regions, basic guidelines for the development of the regions and for the preparation of detailed regional plans were established.

34. The Gwangju region, which is located in the southwest of Korea and consists of the Jeonra Nam Province and two counties of the Jeonra Bug Province (see Map), was selected as the first area for development in accordance with the guidelines of the National Land Development Plan. Gwangju typifies the situation of those regions of Korea which have not shared in the benefits of its dynamic industrial growth. It is predominantly agricultural; 72 percent of its work force of 2.3 million is engaged in agriculture. Gwangju's 13,000 square kilometers constitute about 13 percent of Korea's total land area. However, most of this is mountainous and heavily forested and less than a third of it is arable, with the result that the high population densities on the cultivable land cause fragmentation of land ownership and limit the introduction of efficient farming methods. Income levels are among the lowest in the country; GNP per capita in 1972 was about \$193, only 65 percent of the national average of \$302. The rate of growth of the region's economy was less than half that of the country as a whole during the 1966-72 period. Gwangju's poor economic performance has led to an out-migration of its rural population which declined by about 6 percent during 1966-70. Roughly 85

percent of the rural emigrants left the region, the majority for Seoul; the remainder settled in Gwangju's four major cities - Gwangju (the administrative capital), Mogpo, Suncheon and Yeosu - adding to their housing shortages and burdening already inadequate facilities such as waste disposal, water supply and transport. During the 1960s, Gwangju City doubled in size (from 228,000 to 503,000) absorbing 69 percent of the four cities' population increase; the population of the four cities together grew from 525,000 (15 percent of the region's population) to 885,000 (22 percent). The Government projects a doubling of the urban population in the Gwangju region and a tripling of its urban labor force by 1981.

35. Gwangju's economic backwardness is partly attributable to its lack of accessibility during the Sixties from the Seoul-Daejeon-Daegu-Busan corridor, along which economic activity has been concentrated since the end of the Korean war. This remoteness ended with the opening of the Chonju-Busan Highway, (financed by the Bank under Loan 769-K0, First Highway Project), in August 1973, which has dramatically lowered travel time from locations within the region to major market centers and the ports of Masan and Busan. Road communications within the Gwangju region are being improved, partly under the Bank's Second Highway Project (Loan 956-K0). The Yong San Gang Irrigation Project (being financed by Loan/Credit 795/283-K0) is indicative of the Government's effort to raise incomes in the Gwangju area by increasing agricultural productivity.

36. The Government's concern with accelerating economic growth in Gwangju is also manifested in the various planning guidelines which have been formulated taking the National Land Development Plan (1972-81) as a starting point. It is envisaged that by 1981, Gwangju's value added per capita would rise to 80 percent of the national average (from 65 percent in 1972); that employment in the agricultural sector would decrease from 72 percent at present to about 50 percent and that manufacturing output would increase at 20 percent per annum.

37. One of the major targets stipulated in the planning guidelines relates to the development of an industrial belt to be established in urban areas along Gwangju's southeastern coast. Fertilizer, metals and machine tool industries are expected to be developed in the Yeosu and Suncheon areas. Textile and food processing plants are planned for Gwangju and Naju while plateglass, fishery processing and plywood factories are expected to be located in and around Mogpo. Complementary transport investments comprising improvement of road communications and the expansion of the capacity of the port facilities at Yeosu and Mogpo, which are expected to handle seven million tons of cargo per annum by 1981 compared to just over a million tons per year at present, are also envisioned. Hitherto, industrial development was limited by the lack of adequate urban infrastructure to support new manufacturing capacity. The shortage of financial resources and poor management capabilities made it difficult for the cities to undertake more than piecemeal developments.

Urban master plans map the intended growth of the cities, but they do not adequately take into account the requirements and resources of the urban areas, nor do they reflect central Government investment plans. Urban investments in the Gwangju region have been for the most part uncoordinated and sporadic.

38. The Second Phase of the UNDP Regional Planning Study scheduled for completion in September 1975 has started the process of identifying schemes to enhance the capacity of the region's major cities to provide their increasing populations with basic urban amenities and productive employment. Further, the Government believes that work on the establishment of an institutional framework to evaluate and implement investment plans developed as part of the ongoing Second Phase UNDP Study should commence as soon as possible so that the investments proposed under it are not unduly delayed or jeopardized by the lack of efficient administrative machinery. Their implementation will also afford an excellent opportunity to make a start in building up the institutional support which will be required in the execution of other regional projects.

PART IV - THE PROJECT

39. An appraisal mission visited Korea in November/December 1973 and again in March 1974. Its report (No. 546-KO) is being circulated separately. Negotiations were held in Washington from November 1 to 8, 1974 with a Government team lead by Mr. J. K. Park of the Economic Planning Board. A Loan and Project Summary is attached as Annex III. The proposed project consists of:

(a) Infrastructure comprising:

- (i) housing sites and services in the cities of Yeosu, Mogpo and Gwangju (370,384 m²);
- (ii) a fishery harbor complex with an industrial processing zone (215,385 m²) at Yeosu;
- (iii) a city market at Suncheon (33,166 m²); and
- (iv) access roads to housing sites and industrial estates in the cities of Yeosu and Mogpo (6.61 km).

(b) Technical Assistance aimed at:

- (i) assisting the establishment and operation of the Gwangju Regional Development Unit (GRDU) at the provincial level of government;

- (ii) strengthening regional planning in the Ministry of Construction (MOC) at the national level of government;
- (iii) providing advisory assistance for the management and operation of the Yeosu fishery harbor complex;
- (iv) developing a program of technical assistance to improve the operation and management of water supply systems in four cities, including the identification of short-term improvements; and
- (v) carrying out feasibility studies of selected projects to be identified by the Second Phase of the UNDP Regional Physical Planning Study and by other studies undertaken by the Government.

40. The principal aims of the proposed project are the establishment of an organizational framework for regional investment planning and development which could be used as a model to further regional development in other parts of Korea, and to improve working and living conditions in the urban areas of the Gwangju region in support of Government programs to disperse industry and to reduce migration to the already overcrowded metropolises of Seoul and Busan. The project, therefore, focuses on the provision of: (a) investments geared towards improving public utilities and facilities in the four major cities of the Gwangju region and (b) technical assistance to strengthen regional planning and its execution. The new fishery harbor complex at Yeosu would represent about 49 percent of the total project cost of US\$25 million equivalent, the housing sites and services about 24 percent, access roads about 15 percent, technical assistance about seven percent and the city market at Suncheon about five percent.

41. Yeosu is located in the middle of Korea's south coast, adjacent to the East China Sea--a prime fishing area. It has a natural deep water harbor and two existing ports. One is a cargo port handling international imports and exports for the southeastern part of Korea, and the other is an old multipurpose port which is badly congested by passenger, coastal shipping and commercial fishing vessels. Presently, most of the larger fishing vessels (over 50 gross registered tons) based in Yeosu, land the bulk of their catches in Busan and other ports less convenient to the East China Sea than Yeosu. Shipowners prefer to accept the expense involved in the longer trip than to incur the long delays in unloading and the risk of damage to their vessels at Yeosu. The project provides for the first stage construction of a new fishery harbor complex which, when completed, would have an annual handling capacity of about 150,000 tons of fish and marine products, compared to about 55,000 tons annual capacity of the present facility, and about 40,000 tons of frozen fish to be landed from deep sea trawlers. Also, about 15 plants to process fish and marine products would be located in the industrial zone behind the new port.

Project Implementation

42. The MOC would have overall responsibility for project implementation. It would establish the GRDU to exercise day-to-day supervision and to coordinate activities among the ministries and agencies involved in project execution. The GRDU would be headed by a Project Manager whose qualifications and experience would be acceptable to the Bank. GRDU's specific responsibilities would include:

- (a) supervising and coordinating the implementation of the proposed Project;
- (b) supervising the implementation of feasibility studies, the evaluation and monitoring of the housing sites and services component of the proposed Project, and the supervision of the preparation and execution of a program to utilize more efficiently the water supply systems in the four cities;
- (c) providing assistance to the Urban Project Units which are to be established in each of the participating cities;
- (d) coordinating the sectoral investment programs of the functional ministries into an integrated plan for the region; and
- (e) preparing policy recommendations concerning the formulation of regional strategy to be submitted to the MOC, and the Provincial Advisory Committee and the Vice Ministers' Conference which are referred to in the next paragraph.

43. Qualified staff from MOC, other concerned ministries, the Provincial Government and the participating cities would be seconded to the GRDU. It is envisaged that by the end of the project implementation period, the GRDU would have developed the capability to continue ongoing regional planning work. Consultants to GRDU would assist the Project Manager with project implementation, engineering and technical supervision and project monitoring and evaluation. They would also assist GRDU in preparing a work program which would include review of a regional planning framework, investment programs of the various ministries, the development of a program of self-help housing construction, the mobilization of private investment and the development of a training program. A consultant in regional planning would be assigned to the MOC to assist in the review of regional development policies and provincial programs as well as in the investigation of a program for self-help housing construction for low-income families. A Provincial Advisory Committee would advise the Project Manager on provincial development plans. The Vice Ministers' Conference for Economic Affairs would be assigned the responsibility for providing policy guidance for regional planning and development, and for inter-agency coordination. After the completion of construction, the housing sites would be turned over to the cities for administration and management. Urban Project Units would be

established in the mayors' offices of each of the four cities to administer the sale of serviced housing sites and to plan and identify future urban projects. Upon completion of construction, the Yeosu fishery harbor complex would be transferred to the Office of Fisheries (OOF) of the Ministry of Agriculture and Fisheries for operation and maintenance. The OOF is responsible for similar functions in Korea's other fishing ports. Suncheon City would be responsible for the operation and maintenance of the city market.

Cost and Financing

44. Based upon the exchange rate of Won 400 to the US\$ that prevailed prior to December 7, 1974 when the Won was devalued to 485 to the US\$, the estimated total project cost is \$25.0 million equivalent, with a foreign component estimated at \$12.1 million equivalent. The foreign exchange costs of the project will not be affected by the devaluation. The local currency costs will be higher if local prices rise as a result of the higher cost of imports in Won terms. The Government is taking measures to moderate price increases; thus, rises in local prices resulting from the devaluation should be less than the amount of the devaluation. Local costs expressed in US\$ will be somewhat less because of the devaluation. The financial and economic conclusions of the appraisal which was carried out prior to the devaluation will not be substantially altered by the new exchange rate.

45. The proposed Bank loan would meet about 60 percent of total project cost. If Korea's competitive and efficiently organized construction industry wins all the civil works contracts, as is expected, the loan would cover about \$2.9 million of local costs. The financing plan is summarized in Annex III. It is envisaged that the Government would finance about \$9.5 million of the project costs initially with about \$0.5 million being provided by Suncheon City as equity capital for the city market. These estimates are based on advanced preliminary engineering and early October 1974 costs. Physical and price contingencies, which together comprise about 29 percent of the total project cost (net of land acquisition), are considered adequate as the implementation schedule is relatively short.

46. For the housing sites and services, the cities would borrow funds from the Government (about 60 percent) and from the Korea Housing Bank (KHB) (about 40 percent) to cover expenditures for land acquisition, site preparation, civil works, green areas, engineering and the construction of all infrastructure and community facilities. The proceeds of the Bank loan used for housing sites and services all of which would be channeled through the Government, would not be used for land acquisition. The cities would repay the amounts owed the Government over 25 years, including seven years of grace, at eight percent per annum interest. The terms of the KHB loan would be for 15 years, including three years of grace, at eight percent per annum. The Government would reimburse the cities for the costs of engineering services, off-site infrastructure, community facilities, green areas and engineering by making appropriate payments to the cities in accordance with the cities amortization schedules for the Government and KHB loans. The city of Suncheon would repay the Government the funds spent on the city market over 25 years, including seven years of grace, at eight percent interest per annum.

47. The cost of land, site preparation and on-site infrastructure would be recovered from site occupants in the sale price of the lots. The Government would absorb the costs of off-site infrastructure, community facilities, green areas and engineering. This financial arrangement implies that, of the total cost of housing site preparation of \$6.1 million equivalent, \$3.4 million (about 56 percent) would be recovered directly from site occupants. The balance (about 44 percent) borne by the Government would be recovered indirectly through general charges, taxes and fees. The road user and electricity charges are sufficient for complete cost coverage but the water and sewerage/drainage charges are low. Among the objectives of the technical assistance included in the project is the determination of the actual capital and operating costs of water supply in the four cities in order to provide a sound basis for revised rates.

48. The cost of land, site preparation and on-site infrastructure only would be recovered from the low and medium income site purchasers. The purchasers of the lots for high income households would pay the market value which is estimated to be at least 30 percent above the total of the cost of land, site preparation and on-site infrastructure. Lots for 1893 houses would be financed under the project as follows:

	<u>Number</u>	<u>Average Estimated Cost to Purchaser (\$ equivalent)</u>
Lots for low-income ₂ households (116 m ²)	1,365	1,523
Lots for medium income ₂ households (165 m ²)	347	2,173
Lots for high-income ₂ households (231 m ²)	<u>181</u>	<u>3,960</u>
Total	1,893	

49. A 20 percent down payment on₂ lot purchases would be required from low-income households buying the 116 m² lots. This amount of down payment is within the financial capacity of low-income families because they will have been renting property prior to the purchase of lots under this project, and renters normally pay a deposit equivalent to W70,000 per room which is refunded, without interest, when the renter leaves. A 50 percent down payment would be required from middle-income households buying 165 m² lots. The repayment terms for the balance for low and medium income purchasers would be 12 percent interest over 15 years (with no grace period). The 12 percent interest rate is higher than the present interest of 8 percent charged for public housing, which would enable the cities to have a margin to cover administrative expenses and any defaults. The Government is embarking on

a major study of housing goals and policies, and the question of appropriate interest rates for housing will receive particular attention in this study, in the overall context of both resource mobilization and housing costs. The 231 m² lots would be sold on a cash basis.

50. Housing construction in Korea tends to be relatively expensive because of the heating systems, insulation and materials made necessary by Korea's bitter winters. One of the objectives of the proposed project is to develop ways to provide housing more cheaply. Changes in standards and materials agreed with the Government for this project are expected to result in less expensive houses than has been the case with recent Government public housing projects. Also, some savings in site preparation are expected although the high cost of land in Korea rules out substantial reductions.

Unit Costs (M²)

Land and site preparation	\$15.15	\$13.14
Houses	\$60.61	\$37.28 (with self-help) \$45.51 (fully con- tractor built)

51. Financing for the cost of housing construction (not part of the proposed Bank loan) for low- and middle-income site occupants would be made available by the KHB through the cities. Purchasers can choose among a number of designs and alternative floor plans which will permit varying amounts of savings in construction costs to be realized through self-help labor. Up to 80% of the housing construction cost would be financed and the repayment terms would be 12 percent over 15 years. Initial debt service payments up to 15 percent lower than those required under constant monthly payments would be allowed although subsequent debt payments would increase over time to meet the full amount of the purchasers' debt obligations. High-income households (231 m² lots) are expected to arrange their own financing for house construction. For the housing sites, selection of purchasers would be made by the Urban Project Units. Definitive criteria would be developed which would include the following considerations: level of income, employment status, family size, condition of present occupancy, and amount and source of down payment. Preference would be given to families who do not presently own a house and are working in commercial and industrial estates near the proposed project sites. The cities have had experience with occupant selection under the limited public housing undertaken and they will be assisted by the Korea Housing Corporation which has been responsible for most public housing undertaken in Korea.

52. In respect of the Suncheon city market, the city would assume an obligation to pay the Government \$0.74 million, the portion of the Bank loan used to finance the market. The entire cost of the Suncheon city market would be recovered from merchants through rentals and deposits. There would

be monthly rentals for the buildings and the sheltered market, and daily rentals for the open market. The deposits would be non-refundable but lease rights would be transferable; stalls would be awarded to applicants giving preference to merchants now renting in the old markets. In the case of the Yeosu fishery harbor complex, the port management would collect revenues from the sale of industrial sites and from the lease of port facilities. In addition, part of the port charges not required to meet the costs of operation and maintenance will be credited to the Central Government. These, together with the higher income tax receipts from the expanded activities, would be sufficient to recover the capital investment in the port.

Disbursements

53. Disbursements from the proceeds of the proposed loan would be made on the basis of:

- (a) 100 percent of the cif cost of imported equipment plus installation;
- (b) 60 percent of total expenditures for civil works; and
- (c) 60 percent of total expenditures for consultants services.

In order to start construction in the first quarter of 1975, detailed engineering was begun during the latter half of 1974. It is recommended that retroactive financing of up to \$150,000 for detailed engineering and preparation of bidding documents be financed from the loan.

Procurement

54. Contracts for civil works and for supply of equipment would be awarded on the basis of international competitive bidding in accordance with the Bank's guidelines. Civil works would be grouped to the extent possible to encourage competitive bidding. Equipment, all of which is for the fishery harbor complex, would be procured by the Office of Supply of the Republic of Korea (OSROK), the Government's central procurement agency. OSROK would be responsible for advertising requests for tenders, issuing tender documents, evaluating bids and awarding contracts. A preference of up to 15% or the applicable custom duties, whichever is lower, would be allowed bidders offering locally manufactured goods.

Benefits and Justification

55. The primary objective of the proposed project is to develop the institutional framework required to implement the Government's development program for the Gwangju region. It also focuses on several high priority investments identified in this program. The project would increase the productive capacity of the region in many ways: facilities and technical assistance would be provided for expanded fishery activities and fish processing, for transportation, for trading of agricultural and industrial

products, and for housing services. Within the four participating cities, the project would not only provide institutional support and certain critical infrastructure but would also help the cities achieve a more desirable and efficient spatial growth pattern in the future. The project would support the cities in their crucial roles as centers for many of the industrial, commercial and service activities that are vital to the successful implementation of the overall regional development program.

56. The housing sites and services component of the project focuses on a sector where new and more vigorous approaches are required. It complements efforts toward the formulation of a national housing policy and the implementation of a housing program. The stress on low-cost housing construction techniques and careful monitoring and evaluation of the project should provide the experience required for further cost reduction during later site development stages not only in the four secondary cities but also elsewhere in Korea.

57. The economic rate of return for the Project as a whole is estimated at about 28 percent. For the individual cities and project components, the estimated economic rates of return are:

	<u>Percentage</u>
Housing Sites and Services	
Gwangju	22
Mogpo	19
Yeosu	17
Fishery harbor complex - Yeosu	33
City Market - Suncheon	17
Roads	
Mogpo	16
Yeosu	34

A detailed survey of the value of housing services carried out in the four cities in December 1973 formed the basis of the assessment of benefits for the housing sites and services components of the project. For the Yeosu fishery harbor complex, benefits were quantified on the basis of forecasts of sales of industrial sites at market value, on time and fuel savings for the existing fishing fleet, on the increased catch of fish by an expanded fishing fleet and on the earnings of various port facilities. A survey of demand for market space and existing stall rents was used in the calculation of the return from the Suncheon city market, and the benefits from the access roads were determined by comparing vehicle operating costs and passenger travel times with and without the roads.

58. During the Project implementation period, 2000 full-time construction jobs would be created; an additional 600 jobs would be added for two and a half years for housing construction on sites prepared under the Project. In the long term, 5000 jobs (mostly related to the fishery harbor complex and the Suncheon market) would be created.

59. The Project would prepare the way for improved regional planning and regional development by providing technical assistance to the national office concerned with regional planning. Also, the GRDU which would supervise implementation of this project would be a model that could be followed for supervising and coordinating development projects in other regions in Korea. Consultants' services would provide technical assistance in the operation and management of the water supply systems in the four cities. The proposed feasibility studies of selected projects under the UNDP Phase II Study would prepare future regional investment possibilities.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

60. The draft Loan Agreement between the Bank and the Republic of Korea, the report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement of the Bank and the text of a draft resolution approving the proposed Loan Agreement follows the pattern of Bank Agreements for loans of this kind.

61. I am satisfied that the proposed Loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

62. I recommend that the Executive Directors approve the proposed Loan.

Robert S. McNamara
President
by J. Burke Knapp

Attachments:

COUNTRY DATA - KOREA

AREA

98,477 km²

POPULATION

32.4 million (mid-1972)

DENSITY

725 per km² of arable land

SOCIAL INDICATORS

	Korea 1972		Reference Countries	
	1960	1970	Thailand 1975	Japan 1970
DEMOGRAPHIC				
Crude birth rate (per thousand)	110 $\frac{1}{4}$	110 $\frac{1}{2}$	220 $\frac{1}{2}$	2,320 $\frac{1}{2}$
Crude death rate (per thousand)	10 $\frac{1}{2}$	8	43 $\frac{1}{2}$	19.2 $\frac{1}{2}$
Infant mortality rate (per thousand live births)	11 $\frac{1}{2}$	8	10 $\frac{1}{2}$	6.6 $\frac{1}{2}$
Life expectancy at birth (years)	56	65	59	72
Gross reproduction rate $\frac{1}{2}$	1.9	2.5	3.2	1.0
Population growth rate - urban	7 $\frac{1}{4}$	6 $\frac{1}{4}$	3.1 $\frac{1}{2}$	1.1 $\frac{1}{2}$
Population growth rate - rural	7 $\frac{1}{4}$	6 $\frac{1}{4}$	5 $\frac{1}{2}$	3 $\frac{1}{2}$
Age structure (percent)				
0-20	34	30	..	23.9
15-60	53	56	..	69.0
65 and over	3	4	..	7.1
Dependency ratio $\frac{1}{2}$	1.5 $\frac{1}{2}$	1.4 $\frac{1}{2}$	..	0.6
Urban population as percent of total	28 $\frac{1}{4}$	41 $\frac{1}{4}$	25 $\frac{1}{2}$	72 $\frac{1}{2}$
Family planning: No. of acceptors cumulative (thous.)	..	..	190	..
No. of users (% of married women)	..	..	10	8.2 $\frac{1}{2}$
EMPLOYMENT				
Total labor force (thousands)	7,500	10,200 $\frac{1}{2}$	16,900 $\frac{1}{2}$	52,800
Percentage employed in agriculture	86	47 $\frac{1}{2}$	77 $\frac{1}{2}$	19
Percentage unemployed	3	5 $\frac{1}{2}$	1	1.2
INCOME DISTRIBUTION				
Percent of national income received by highest 5%	..	16 $\frac{1}{2}$	17 $\frac{1}{2}$	32 $\frac{1}{2}$
Percent of national income received by highest 20%	..	36 $\frac{1}{2}$	16 $\frac{1}{2}$	66 $\frac{1}{2}$
Percent of national income received by lowest 20%	..	8 $\frac{1}{2}$	7 $\frac{1}{2}$	3 $\frac{1}{2}$
Percent of national income received by lowest 10%	..	24 $\frac{1}{2}$	17 $\frac{1}{2}$	10 $\frac{1}{2}$
DISTRIBUTION OF LAND OWNERSHIP				
% owned by top 10% of owners	27	28	..	53
% owned by smallest 10% of owners	3	2	..	0.7
HEALTH AND NUTRITION				
Population per physician	3,000 $\frac{1}{2}$	2,210 $\frac{1}{2}$	7,970	880
Population per nursing person	..	1,760 $\frac{1}{2}$	6,650	240
Population per hospital bed	2,600 $\frac{1}{2}$	1,920	990	80
Per capita calorie supply as % of requirements $\frac{1}{2}$	89 $\frac{1}{2}$	106 $\frac{1}{2}$	96 $\frac{1}{2}$	113 $\frac{1}{2}$
Per capita protein supply, total (grams per day) $\frac{1}{2}$	59 $\frac{1}{2}$	72 $\frac{1}{2}$	51 $\frac{1}{2}$	76 $\frac{1}{2}$
Of which, animal and pulse	13 $\frac{1}{2}$	19 $\frac{1}{2}$	17 $\frac{1}{2}$	22 $\frac{1}{2}$
Death rate 1-4 years $\frac{1}{2}$	..	..	..	15 $\frac{1}{2}$
EMIGRATION				
Adjusted $\frac{1}{2}$ primary school enrollment ratio	96	104	80 $\frac{1}{2}$	111
Adjusted $\frac{1}{2}$ secondary school enrollment ratio	27	41	13 $\frac{1}{2}$	28
Years of schooling provided, first and second level	12	12	12	11
Vocational enrollment as % of sec. school enrollment	14	15 $\frac{1}{2}$	12 $\frac{1}{2}$	11
Adult literacy rate %	..	81 $\frac{1}{2}$	70 $\frac{1}{2}$	99 $\frac{1}{2}$
HOUSING				
Average no. of persons per room (urban)	2.8 $\frac{1}{2}$	2.7	..	1.9 $\frac{1}{2}$
Persons per occupied unit without piped water	88 $\frac{1}{2}$	80 $\frac{1}{2}$	..	64 $\frac{1}{2}$
Access to electricity (as % of total population)	28	50 $\frac{1}{2}$	17	41 $\frac{1}{2}$
Percent of rural population connected to electricity	12	30	13	14 $\frac{1}{2}$
CONSUMPTION				
Radio receivers per 1000 population	32	126	78	568 $\frac{1}{2}$
Passenger cars per 1000 population	0.4	2	5	101 $\frac{1}{2}$
Electric power consumption (kwh p.c.)	71	308	120	3,391
Meat consumption p.c. kg per year	1.8	3.4	1.0	19.1

Notes: Figures refer either to the latest periods or to the latest years. Latest periods refer in principle to the years 1966-68 or 1966-70; the latest years in principle to 1966 and 1967.

$\frac{1}{2}$ Data on 1960 estimate is at market prices for years other than 1960 calculated by the same conversion technique as the 1972 World Bank Atlas.

$\frac{2}{2}$ Average number of daughters per woman of reproductive age.

$\frac{3}{2}$ Population growth rates are for the decades ending in 1960 and 1970.

$\frac{4}{2}$ Ratio of under 15 and 65 and over age brackets to those in labor force bracket of ages 15 through 64.

$\frac{5}{2}$ FAO reference standards represent physiological requirements for normal activity and health, taking

account of environmental temperature, body weight, and distribution by age and sex of national populations.

$\frac{6}{2}$ Protein standards (requirements) for all countries as established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are somewhat lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

$\frac{7}{2}$ Some studies have suggested that crude death rates of children ages 1 through 4 may be used as a first approximation index of malnutrition.

$\frac{8}{2}$ Percentage enrolled of corresponding population of school age as defined for each country.

$\frac{9}{2}$ Computed by applying to the 1970 figure the growth rate of GNP per capita in real terms from 1960 to 1970; $\frac{10}{2}$ 1965; $\frac{11}{2}$ 1965-70 UN estimate; $\frac{12}{2}$ Derived from Sample Survey estimates (240,000 persons), excluding 17 eastern provinces; $\frac{13}{2}$ 1971; $\frac{14}{2}$ 1965; $\frac{15}{2}$ 1965-70; $\frac{16}{2}$ Seoul city and municipalities of 5,000 or more inhabitants; $\frac{17}{2}$ Over 10,000 population; $\frac{18}{2}$ Administrative centers of provinces and districts (provinces and "Mass" centers); $\frac{19}{2}$ Cities ("Sbts") having 30,000 or more inhabitants; $\frac{20}{2}$ Ratio of population under 15 and 65 and over to total labor force; $\frac{21}{2}$ 1964-June 1971; $\frac{22}{2}$ 86 percent being 100%; $\frac{23}{2}$ Employed labor force; $\frac{24}{2}$ Number on the wage and salary income of households; $\frac{25}{2}$ Households; $\frac{26}{2}$ Including assistant nurses and midwives; $\frac{27}{2}$ Estimate; $\frac{28}{2}$ 1964-66; $\frac{29}{2}$ Data on vocational education refer to public schools and includes technical education at the post-secondary level; $\frac{30}{2}$ Definition unknown; $\frac{31}{2}$ Persons six years old and over who tell the census takers that they can read and write; $\frac{32}{2}$ Data refer to household; $\frac{33}{2}$ Water piped inside; $\frac{34}{2}$ Inside or outside; $\frac{35}{2}$ Percentage of dwellings with electric lighting.

* Japan has been selected as an objective country due to the similarity of the present Korean economic structure to that of Japan in the mid-fifties (with the same principle resource base, i.e., efficient, industrious, cheap labor and heavy reliance on imported raw materials). Moreover, agriculture, transport, and other sectors of the economy have similar characteristics. Korea also has, in its Long-Term Plan (1972-81), a pattern of industrial development which is not very different from the one Japan pursued with great success in the sixties.

KOREA

ECONOMIC DEVELOPMENT DATA SHEET
(Amounts in millions of U.S. dollars)

	Actual			Projected			1960-1965	1965-1970	1970-1975	1975-1979	1960	1970	1979
	1960	1965	1970	1973	1975	1979							
NATIONAL ACCOUNTS													
	3-year Averages at 1967-69 Prices & Exchange Rates						Average Annual Growth Rate				As Percent of GNP		
Gross Domestic Product	3,167.6	4,343.0	7,252.0	9,760.8	11,766.2	16,306.2	6.5	10.8	10.2	8.9	100.2	100.1	101.6
Gains from Terms of Trade (+)	-6.6	-24.0	-8.6	-162.2	-318.7	-251.4	-	-	-	-	-0.2	-0.1	-1.6
Gross Domestic Income	3,161.0	4,319.0	7,243.4	9,618.6	11,447.5	16,054.8	6.5	10.9	9.6	8.9	100.0	100.0	100.0
Imports (incl. NFS)	337.3	548.4	2,142.5	2,766.7	3,511.7	4,499.0	10.2	31.2	10.1	8.5	10.7	29.6	28.0
Exports (import capacity)	113.1	302.5	1,301.7	2,536.0	3,395.0	4,566.0	21.7	34.0	21.0	10.3	3.6	18.0	28.0
Resource Gap	-224.2	-245.9	-840.8	-230.7	-116.7	67.0	1.1	29.0	1.0	-	-7.1	-11.6	0.4
Consumption Expenditures	3,075.5	3,862.3	5,926.2	7,726.9	9,242.5	12,355.0	4.6	9.0	9.3	8.2	97.1	81.2	77.0
Investment (incl. stocks)	309.7	702.6	2,158.0	2,190.5	2,321.1	3,633.3	17.8	25.5	1.5	8.8	2.8	29.5	22.6
Domestic Savings	85.5	456.7	1,317.2	1,959.8	2,204.8	3,700.3	40.0	23.5	3.8	11.2	1.7	18.2	23.0
National Savings ^{e/}	329.9	663.2	1,503.1	2,024.8	2,184.8	3,467.5	15.0	17.7	9.8	9.4	10.4	10.8	21.6
MERCHANDISE TRADE													
	Annual Data at Current Prices						As Percent of Total						
Imports													
Capital Goods	70.0	73.0	590.0	1,148.0	1,527.0	2,470.0	0.8	51.4	21.0	13.6	10.3	29.6	24.1
Intermediate Goods (excl. fuels)	90.0	110.7	404.0	1,477.9	2,026.0	3,060.0	4.1	29.5	16.0	12.9	11.0	20.1	29.9
Fuels and Related Materials	31.0	31.0	136.0	387.0	1,307.0	2,138.0	0.0	34.5	57.0	33.0	7.2	6.8	20.9
of which: Petroleum	28.0	29.0	133.0	380.0	1,287.0	2,096.0	0.6	35.5	57.0	33.0	6.2	6.2	(20.5)
Consumption Goods	238.0	243.0	852.0	1,228.0	1,650.0	2,560.0	0.4	28.7	14.1	13.1	52.5	43.0	25.0
Total Merchandise Imports (incl.)	429.0 ^{a/}	457.0	1,982.0	4,260.9	6,510.0	10,228.0	1.3	34.2	26.1	15.8	100.0	100.0	100.0
Exports													
Primary Products (excl. fuels)	37.0	64.0	131.0	314.0	337.0	362.4	11.6	15.4	20.6	1.4	7.3	14.4	4.4
Fuels and Related Materials	3.0	2.0	9.0	55.0	43.0	70.0	-7.8	35.1	36.7	4.1	5.4	1.1	0.8
of which: Petroleum	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufactured Goods	15.0	109.0	738.0	2,843.0	4,336.0	7,878.6	48.7	46.8	42.5	18.5	17.3	84.1	94.8
Total Merchandise Exports (fob)	55.0	175.0	878.0	3,212.0	4,716.0	8,311.0	26.2	38.6	40.0	17.1	100.0	100.0	100.0
Tourism and Border Trade	..	5.0	34.0	234.0	290.0	330.0	..	46.5	50.4	5.1	..	..	..
MERCHANDISE TRADE INDICES													
	Average 1967-69 = 100												
Export Price Index	89.2	87.5	100.0	150.0	169.0	215.0	-0.5	2.7	8.5	6.2			
Import Price Index	104.0	103.0	100.0	153.0	195.0	237.0	-0.5	-0.5	8.9	7.6			
Terms of Trade Index	85.8	84.9	100.0	98.0	86.7	90.7	-0.5	3.4	-3.0	-1.3			
Export Volume Index	13.6	36.9	153.6	324.3	406.4	542.9	22.0	33.0	16.1	9.0			
VALUE ADDED BY SECTOR													
	Annual Data at 1967-69 Prices & Exchange Rates												
Agriculture	1,303.4	1,684.0	2,025.2	2,226.5	2,431.4	2,832.3	5.3	3.8	3.7	4.1	43.0	31.0	20.0
Industry and Mining	311.2	540.0	1,318.5	2,241.6	3,000.7	4,556.9	11.7	19.7	17.8	12.5	10.0	20.0	33.0
Service	1,306.1	1,715.0	3,162.0	4,249.1	4,873.9	6,632.0	5.6	13.0	9.1	9.3	45.0	49.0	47.0
Total	2,920.7	3,939.0	6,505.7	8,717.2	10,306.0	14,021.2	6.1	10.5	9.6	10.0	100.0	100.0	100.0
PUBLIC FINANCE													
(Central Government)													
Current Receipts	388.4	394.6	1,212.1	1,202.4	1,695.4	2,990.3	0.3	25.2	7.0	16.4	14.0	19.0	18.0
Current Expenditures	421.2	374.2	883.2	1,010.0	1,295.5	2,491.9	-2.4	18.8	7.9	16.3	14.0	14.0	15.0
Budgetary Savings	-32.8	20.4	328.9	192.4	399.9	498.4	..	73.0	3.9	17.2	-1.0	5.0	3.0
Other Public Sector Savings	16.8	49.7	168.5	..	..	..	24.0	27.0	..	..	1.0	3.0	2.0
Public Sector Investment	108.2	165.8	472.6	364.0	571.0	747.6	8.9	23.2	3.9	12.7	4.0	7.0	4.0
CURRENT EXPENDITURE DETAILS													
(As % Total Current Expend.)	Actual						At 1967-69 Prices				As Percent of Total		
	1965	1970	1971	1972	Est. 1973		Plan (1967-71)	Plan (1973-81)	Plan (1967-71)	Plan (1973-81)			
Education	15.0	15.0	17.0	16.0	16.0		317	5,116	29.0	42.0			
Other Social Services	10.0	14.0	11.0	14.0	15.0		64	2,835	6.0	23.0			
Agriculture	10.0	9.0	8.0	5.0	7.0		92	1,064	8.0	9.0			
Other Economic Services	19.0	16.0	18.0	20.0	16.0		26	*	2.0	*			
Administration and Defense	36.0	37.0	28.0	27.0	29.0								
Other	10.0	9.0	18.0	18.0	17.0		479	3,167	43.0	26.0			
Total Current Expenditures	100.0	100.0	100.0	100.0	100.0		129	51	12.0	..			
							1,107	12,233	100.0	100.0			
SELECTED INDICATORS													
	1960-1965	1965-1970	1970-1975	1973-1979		FINANCING ^{e/}							
Average ICOR	2.2	2.4	2.8	2.8		Public Savings	1,481	..	69.0	..			
Import Elasticity ^{e/}	1.6	2.8	1.1	1.0		Program Aid	485	..	22.0	..			
Marginal Domestic Savings Rate	0.30	0.30	0.22	0.29 ^{e/}		Foreign Borrowing (Net)	61	..	3.0	..			
Marginal National Savings Rate	0.29	0.30	0.18	0.25 ^{e/}		Domestic Borrowing (Net)	122	..	6.0	..			
						Total	2,149	..	100.0	..			
LABOR FORCE AND OUTPUT PER WORKER													
	Total Labor Force					Value Added Per Worker (1967-69 Prices & Exch. Rates)							
	In Millions	% of Total			1960-70 Growth Rate	In U.S. Dollars	% of Average			1960-70 Growth Rate			
	1960	1970	1960	1970		1960	1970						
Agriculture	4.6	4.8	66	51	0.4	282	419	68	62	4.0			
Industry	0.5	1.3	7	13	10.1	563	986	135	145	5.8			
Services	1.9	3.5	27	36	6.1	701	930	169	137	2.8			
Total	7.0	9.6	100	100	3.1	416	682	100	100	5.8			

a/ not available
 .. not applicable
 e staff estimate
 * included in Social Sectors

a/ 1962.
 b/ Central Government
 c/ Official (EPB)

d/ Fiscal Plan
 e/ Based on three-year average
 f/ 1973 is included
 g/ Includes current transfers (net)

BALANCE OF PAYMENTS, EXTERNAL ASSISTANCE AND DEBT	amounts in millions of U.S. dollars at current prices
1950	10.0
1951	10.0
1952	10.0
1953	10.0
1954	10.0
1955	10.0
1956	10.0
1957	10.0
1958	10.0
1959	10.0
1960	10.0
1961	10.0
1962	10.0
1963	10.0
1964	10.0
1965	10.0
1966	10.0
1967	10.0
1968	10.0
1969	10.0
1970	10.0
1971	10.0
1972	10.0
1973	10.0
1974	10.0
1975	10.0
1976	10.0
1977	10.0
1978	10.0
1979	10.0
1980	10.0
1981	10.0
1982	10.0
1983	10.0
1984	10.0
1985	10.0
1986	10.0
1987	10.0
1988	10.0
1989	10.0
1990	10.0
1991	10.0
1992	10.0
1993	10.0
1994	10.0
1995	10.0
1996	10.0
1997	10.0
1998	10.0
1999	10.0
2000	10.0
2001	10.0
2002	10.0
2003	10.0
2004	10.0
2005	10.0
2006	10.0
2007	10.0
2008	10.0
2009	10.0
2010	10.0
2011	10.0
2012	10.0
2013	10.0
2014	10.0
2015	10.0
2016	10.0
2017	10.0
2018	10.0
2019	10.0
2020	10.0
2021	10.0
2022	10.0
2023	10.0
2024	10.0
2025	10.0
2026	10.0
2027	10.0
2028	10.0
2029	10.0
2030	10.0
2031	10.0
2032	10.0
2033	10.0
2034	10.0
2035	10.0
2036	10.0
2037	10.0
2038	10.0
2039	10.0
2040	10.0
2041	10.0
2042	10.0
2043	10.0
2044	10.0
2045	10.0
2046	10.0
2047	10.0
2048	10.0
2049	10.0
2050	10.0
2051	10.0
2052	10.0
2053	10.0
2054	10.0
2055	10.0
2056	10.0
2057	10.0
2058	10.0
2059	10.0
2060	10.0
2061	10.0
2062	10.0
2063	10.0
2064	10.0
2065	10.0
2066	10.0
2067	10.0
2068	10.0
2069	10.0
2070	10.0
2071	10.0
2072	10.0
2073	10.0
2074	10.0
2075	10.0
2076	10.0
2077	10.0
2078	10.0
2079	10.0
2080	10.0
2081	10.0
2082	10.0
2083	10.0
2084	10.0
2085	10.0
2086	10.0
2087	10.0
2088	10.0
2089	10.0
2090	10.0
2091	10.0
2092	10.0
2093	10.0
2094	10.0
2095	10.0
2096	10.0
2097	10.0
2098	10.0
2099	

PRIMARY BALANCE OF PRIORITIES	Actual			Estimated			Y	Projected				Avg. Annual Growth Rate 1973-81
	1969	1970	1971	1972	1973	1974		1975	1976	1977	1978	
1. (incl. RES)	1,113	1,361	1,587	2,205	6	5,045	5,714	6,499	7,760	9,311	12,971	15.7
2. (incl. RES)	1,190	2,137	2,515	2,606	4,460	6,495	6,827	7,686	8,987	10,591	13,200	14.5
3. Balance (1-2)	-790	-766	-928	-401	-412	-1,011	-1,113	-1,187	-1,227	-1,281	-229	-
4. Investment (Income)	-5	-37	-91	-140	-150	-167	-193	-286	-534	-845	-977	26.5
5. Residuals (Income)	(44)	(33)	(25)	(19)	-40	-50	-60	-80	-85	-132	-166	21.2
6. Transfers (net)	246	180	121	170	260	241	210	220	210	200	200	-2.8
7. on Current Account	-549	-623	-846	-371	-332	-593	-636	-633	-638	-563	-1,192	16.3
Private Direct Invest Invt	16	38	56	47	149	200	250	275	300	350	425	14.0
Official Capital Grants	56	135	135	-16	-	-	-	-	-	-	-	-
8. Public Debt	666	422	593	721	693	1,023	1,135	1,425	1,615	1,766	1,579	10.3
9. Short-Term Capital	-112	-205	-237	-216	-236	-243	-231	-231	-232	-231	-200	17.0
10. Disbursements	534	217	336	305	437	784	902	1,178	1,283	1,212	639	4.9
11. Public Debt	17	78	33	49	52	84	55	107	122	133	116	10.6
12. Short-Term Capital	-3	-8	-10	-4	-16	-18	-15	-19	-26	-22	-65	19.8
13. Disbursements	12	70	23	40	36	66	63	88	96	91	48	3.7
14. Change in Gross Reserves	-162	-57	49	-155	-125	-	-	-	-	-	-	Estimated
15. Errors and Omissions	-6	-16	6	41	-	-	-	-	-	-	-	Estimated
PRANT AND LOAN DOWN PAYMENTS	-	-	-	-	-	-	-	-	-	-	-	Estimated
Official Grants	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	65	40	65	73	183	-	-	-	-	-	-	Estimated
Short-Term Capital	15	15	7	26	40	-	-	-	-	-	-	Estimated
Disbursements	25	50	81	64	100	-	-	-	-	-	-	Estimated
Public Debt	154	221	309	400	350	-	-	-	-	-	-	Estimated
Short-Term Capital	299	158	204	108	-	-	-	-	-	-	-	Estimated
Disbursements	116	118	111	106	-	-	-	-	-	-	-	Estimated
Public Debt	30	572	697	790	653	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	Estimated
Short-Term Capital	-	-	-	-	-	-	-	-	-	-	-	Estimated
Disbursements	-	-	-	-	-	-	-	-	-	-	-	Estimated
Public Debt	-	-	-	-	-	-	-	-	-	-	-	

- not applicable
- .. not available
- ... not available separately
but included in total

- o staff estimate
- nil or negligible
- less than half the smallest unit shown

1/ Fiscal years
2/ 1969-72 figures include interest

KOREASECONDARY CITIES REGIONAL PROJECTTHE STATUS OF BANK GROUP OPERATIONS IN THE REPUBLIC OF KOREAA. Statement of Bank Loans and IDA Credits (as at October 31, 1974)

Loan or Credit Number	Year	Borrower	Purpose	US\$ Million		
				Amount (less cancellations)		
				Bank	IDA	Undisbursed
Five loans and credits fully disbursed				24.7	39.7	
600	1969	ADC	Irrigation	45.0		13.5
151	1969	Republic of Korea	Education		14.8	4.2
669	1970	Republic of Korea	Railways	40.0		3.1
234	1971	Republic of Korea	Livestock		7.0	.5
735	1971	KDFC	Dev. Fin. Co.	30.0		2.2
769	1971	Republic of Korea	Highways	54.5		1.5
283	1972	Republic of Korea	Irrigation		15.0	9.5
795	1972	ADC	Irrigation	33.0		32.4
335	1972	Republic of Korea	Agricultural Cr.		10.5	6.3
863	1972	Republic of Korea	Railways	40.0		29.6
905	1973	KDFC	Dev. Fin. Co.	40.0		18.2
906 & 394	1973	Republic of Korea	Education II	23.0	20.0	42.9
917	1973	Republic of Korea	Ports	80.0		78.2
942	1973	Republic of Korea	Seeds Produc- tion	7.0		6.9
953	1974	Republic of Korea	Tourism	25.0		25.0
956	1974	Republic of Korea	Highways II	47.0		38.8
994 ^{/a}	1974	AFDC	Agriculture	13.0		13.0
Total				502.2	107.0	325.8
of which has been repaid				10.1	0.3	
Total now outstanding				492.1	106.7	
Amount sold				2.0		
of which has been repaid				0.8	1.5	
Total now held by Bank and IDA (prior to exchange adjustment)				490.9	106.7	
Total undisbursed				285.4	40.4	325.8

^{/a} Not yet effective.

B. Projects in Execution ^{1/}Loan No. 600Pyongtaek-Kumgang Irrigation Project; US\$45.0 million
Loan of May 23, 1969; Closing Date: June 30, 1975

This is the first major irrigation project constructed in Korea. It was expected at appraisal that it would irrigate about 35,000 ha. of land, improve drainage and roads, consolidate paddy fields, bench upland and reclaim tidal land. The start of construction was postponed by a major reorganization of the executing agency and a delay in hiring consultants. The major project elements (two sea dikes, the main distribution system and pumping plants) are expected to be largely completed by the end of 1974. Contracts for most of the remaining work have been awarded. Some 5,000 ha. of the area to be irrigated by the project have been deleted because of cost considerations. Overall project costs have risen from US\$90 million to about US\$130 million mainly because of the increased costs of right-of-way, engineering, administration and land consolidation. Preliminary estimates indicate increases in the price of rice will partially offset the effects of higher costs and reduced irrigable area. Nevertheless, the overall rate of economic return of the project will likely be about 10 percent, compared with 14 percent estimated during appraisal. The implementing agency (ADC) is reviewing ways of reducing costs on the remaining work which should lead to some marginal cost savings. About 70 percent of the loan has been disbursed. Construction is progressing satisfactorily and all work is scheduled for completion by mid-1976. An extension of the present Closing Date will be necessary.

Credit No. 151First Education Project; US\$14.8 million Credit of
June 4, 1969; Closing Date: December 31, 1974

This Project comprises: (a) the expansion and equipping of 27 technical, commercial and agricultural high schools, 5 post-secondary higher schools and 4 university teacher training departments; and (b) 26 man-years of technical assistance and 20 man-years of overseas fellowships to support the development of agricultural and technical education.

Project implementation is about 12 months behind schedule because, in the initial stages, delays occurred in the establishment of the Project Units, the selection and appointment of consultant architects and the formulation of equipment procurement procedures. The Project is now progressing satisfactorily, but it is expected that because of the initial delays it will be completed later than estimated at appraisal. This will require a postponement of the Closing Date by about a year.

^{1/} These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense; and with the understanding that they do not purport to present a balanced evaluation of strengths and weakness in project execution.

Loan 669
Credit No. 183

Third Railway Project; US\$40.0 million loan and
US\$15.0 million Credit of May 14, 1970; Closing Date:
December 31, 1975

The bulk of the Loan and Credit was earmarked for the purchase of freight cars, diesel locomotives, and telecommunications and track maintenance equipment. Delays in the procurement of some microwave equipment and a special purpose car, the last items to be purchased under the Project, have caused the Closing Date of the Loan to be postponed from August 31, 1973 to December 31, 1975.

Credit No. 234

Integrated Dairy Beef Development Project; US\$7.0 million
Credit of February 11, 1971; Closing Date: March 31, 1977

The development of about 700 small and medium-sized dairy farms by providing long-term loans, and the construction and operation of two dairy products processing plants are the principal components of the Project which also includes management and technical services related to these activities. The Project is progressing satisfactorily. To date, about 328 farmers have participated and farm loans of about US\$3.3 million equivalent have been approved. About 3,500 head of cattle have been purchased and two dairy plants have been constructed and are in operation. Problems in the Government's pasture maintenance and artificial insemination services and a shortage of fertilizers and concentrate feeds of adequate quality continue but they are to some extent being offset by the excellent technical services being provided under the Project. Loan funds, except for technical services, will be fully committed by the end of 1974. The proposed second livestock project would be executed by the same agency, the Korea Dairy Beef Company.

Loan No. 735

Third Korea Development Finance Company Project, US\$30
million Loan of May 14, 1971; Closing Date: August 31,
1975

The Project is progressing satisfactorily. The Loan is fully committed.

Loan No. 769

First Highway Project; US\$54.5 million Loan of June 29,
1971; Closing Date: November 30, 1975

The construction of approximately 370 km of national highways between Jeonju and Busan was satisfactorily completed in December 1973, at a final cost about 5 percent above the appraisal estimate. The feasibility studies have been completed for 1,400 km of national highways, and detailed engineering of 900 km is in progress. A highway maintenance study is also being undertaken and a new National Highway Maintenance Organization has been established on a pilot basis in one of the Provinces.

Loan No. 795
Credit No. 283

Yong San Gang Irrigation Project; US\$33.0 million Loan
and US\$15.0 million Credit of February 2, 1972; Closing
Date: September 30, 1977

This is the second major irrigation project financed by the Bank in Korea. It aims at transforming an area with the highest drought frequency in Korea into one with year-round irrigation and crop diversification. Also, there will be increased production of high value crops such as fruits and winter vegetables to take advantage of the relatively favorable climate in the project area. Detailed survey and design work is proceeding satisfactorily and construction has begun on three of the four dams. Award of the remaining three major contracts for canals and land consolidation will be delayed until next summer, with construction to start after rice harvest, which is about a year later than estimated at appraisal. The delay was caused mainly by financial difficulties attributed to price escalation and design modifications. Cost estimates (including \$58 million for price increases beyond 1974) have increased by about 106 percent mainly because of inflation, but modifications in dam design, and increases in the number of structures and quantities have also been significant. The increased cost will be largely offset by higher prices for rice and an increase of about 1,400 ha. in the net area to be irrigated.

Credit No. 335

Agricultural Credit Project; US\$10.5 million Credit of
September 29, 1972; Closing Date: September 1, 1976

The Credit supports a three year lending program to small farmers to develop orchards and sericulture and to encourage poultry and swine production. Project implementation has improved substantially in recent months because of improvements in the appraisal of sub-projects brought about by intensive training of Kun Cooperative loan officers and close supervision by the National Agricultural Cooperative Federation's Project Unit. The Project is now progressing satisfactorily.

Loan No. 863

Fourth Railway Project; US\$40.0 million Loan of
November 22, 1972; Closing Date: December 31, 1976

The main elements of the Project are: electrification of lines in the Seoul suburban area; purchase of electric railcars and locomotives; the completion of electrification of 350 km of line running from Seoul to the northeastern part of Korea; track and bridge renewal; provision of yard facilities; acquisition of passenger and freight cars; and improvement of facilities for the maintenance and repair of motive power and rolling stock. About 70 percent of Loan funds have been committed.

Loan No. 905

Fourth KDFC Project; US\$40.0 million Loan of June 13,
1973; Closing Date: December 31, 1977

The Project is progressing satisfactorily. The Loan is fully committed.

Loan No. 906
Credit No. 394

Second Education Project; US\$23.0 million Loan and
US\$20.0 million of Credit of June 13, 1973; Closing
Date: December 31, 1977

The Project provides equipment for: 18 technical and 14 agricultural high schools; 10 higher schools/junior colleges for industrial, agricultural, fishery and nursing training; colleges of agriculture, engineering and natural sciences in ten universities and a merchant marine college; 10 junior teacher colleges and 12 colleges of education. It also includes pre-investment studies on health and management education and staff development. This Loan, which was declared effective on September 10, 1973 is about six months behind appraisal estimates because of delays in the selection of consultant architects, the commencement of designs for civil works and the preparation of equipment lists.

Loan No. 917

Ports Project; US\$80 million Loan of June 27, 1973;

The Project includes the provision of container and bulk cargo facilities and equipment at Busan and coal piers and handling equipment at Busan and Mukho. Consultants contracts have been let for technical assistance to the proposed Korea Port Authority and a Phase II Port Development Study. Contracts for dredging and construction of the composite pier and pier 7 at Busan have been awarded. Design and preparation of tender documents for the remaining project items are proceeding satisfactorily. Revised cost estimates show an increase of about 46 percent over appraisal estimates, much of which is increased contingencies for future years.

Loan No. 942

Seeds Project; US\$7.0 million Loan of November 15,
1973; Closing Date: December 31, 1978

The Project consists of: (a) the installation of five field crop seed processing and storage facilities; (b) farm machinery for seed production; (c) a revolving fund for procuring seasonal seed inventories; (d) seed testing laboratories and equipment; (e) crop research (financed in part by USAID); (f) feasibility studies for irrigation and area development; and (g) technical assistance. The Loan was declared effective on April 24, 1974.

Loan No. 953

Kyongju Tourism Project; US\$25.0 million Loan of
January 4, 1974; Closing Date: December 31, 1978

The Project forms part of the first phase of the planned development of the Bomun Lake resort near Kyongju. It provides for a multi-purpose dam; an irrigation system for about 1,200 ha; improvement of the water supply and sewerage systems for the project area; installation of telephone, telegraph and telex facilities in the project area; the construction and/or realignment of about 57 kms of roads; infrastructure including storm water drainage, environmental sanitation, community facilities, a golf course, a school for training hotel personnel; and a feasibility study for the development of tourism on Cheju Island. The Loan was declared effective on May 6, 1974.

Final design for almost all Project components is complete and the first two contracts have been awarded. Because of recent unexpectedly large increases in prices, rephasing of the Project is being considered to make effective use of Project funds.

Loan No. 956 Second Highway Project; US\$47.0 million Loan of
January 25, 1974; Closing Date: December 31, 197.

The Project, which forms part of the Government's 1972-76 road construction and paving program, consists of the construction, chiefly on new alignments, of about 130 kms of highways; feasibility studies by consultants of about 1,000 kms of national and provincial roads, followed by detailed engineering where justified; and the procurement of highway maintenance and workshop equipment for the extension of a new highway maintenance program from a pilot province to the remainder of the country. The Loan was declared effective on April 4, 1974. All construction and paving contracts have been awarded; implementation of the Project is progressing satisfactorily.

Loan No. 994 Integrated Agricultural Products Processing Project;
US\$13.0 million Loan of June 7, 1974; Closing Date:
June 30, 1979

The Project will integrate the on-farm production of asparagus, oak mushrooms, mushrooms, spinach, peaches and strawberries with efficient hygienic processing facilities using land that is presently idle or underutilized. About 435 ha. of asparagus, 2,500 ha. of spinach, 300 ha. of strawberry and oak mushrooms on about 24,000 m³ of oak logs will be developed. Four canneries will be expanded and 22 canneries will be modernized. Two new freezing plants will be constructed, one will be modernized and up to seven oak mushroom drying facilities will be constructed. The terminal date for effectiveness of the Project has been extended to January 15, 1975, to provide additional time for recruiting consultants and a project manager.

KOREA

SECONDARY CITIES REGIONAL PROJECT

LOAN AND PROJECT SUMMARY

Borrower: The Republic of Korea

Amount: US\$15.0 million

Terms: Twenty-five years, including seven years of grace, at 8 percent.

Project Description:

The proposed project would consist of:

(a) Infrastructure including:

- (i) Housing sites and services in the cities of Yeosu, Mogpo and Gwangju (370,384 m²);
- (ii) A fishery harbor complex with industrial processing zone (215,385 m²) in Yeosu;
- (iii) A city market in Suncheon City (33,166 m²); and
- (iv) Access roads in Yeosu and Mogpo (6.61 km).

(b) Technical Assistance:

- (i) To assist the establishment and operation of the Gwangju Regional Development Unit at the Provincial level and to strengthen regional planning at the national level;
- (ii) To provide advisory assistance for the management and operation of the Yeosu fishery harbor complex;

- (iii) To develop a program of technical assistance to assist in the operation and management of water supply systems in the four cities, including the identification of short-term improvement; and
- (iv) To carry out feasibility studies of selected projects to be identified by the UNDP Phase II study and other studies undertaken by the Government.

Estimated Cost:

	<u>Local</u>	<u>Foreign</u> (US\$ million)	<u>Total</u>	Percentage Foreign Exchange Component ^{/a}
<u>Project Component</u>				
A. Housing Sites and Services	2.7	1.8	4.5	51
B. Yeosu Fishery Harbor Complex	4.2	4.3	8.5	52
C. Suncheon City Market	0.4	0.4	0.8	48
D. Access Roads	<u>1.7</u>	<u>1.1</u>	<u>2.8</u>	<u>48</u>
E. Technical Assistance				
(i) Technical assistance to cities for water supply	0.1	0.2	0.3	57
(ii) Advisory assistance to GRDU and Regional Planning	0.1	0.4	0.5	82
(iii) Fishery Complex Management Assistance	0.2	0.2	0.4	55
(iv) Feasibility Studies	0.3	0.2	0.5	45
F. Contingencies				
(i) Physical (14%)	1.0	1.1	2.1	52
(ii) Price (23%)	<u>2.2</u>	<u>2.4</u>	<u>4.6</u>	<u>51</u>
Total	12.9	12.1	25.0	48

/a Calculated on total project cost net of land acquisition.

Financing Plan:

<u>Project Component</u>	<u>Government</u>	<u>City Suncneon</u>	<u>Bank Loan</u>	<u>Total Cost</u>
Housing Sites and Services	4.0	-	2.1	6.1
Yeosu Fishery Harbor Complex	2.9	-	9.3	12.2
Suncneon City Market	-	0.5	0.7	1.2
Access Roads	<u>1.9</u>	<u>-</u>	<u>1.9</u>	<u>3.8</u>
Sub-Total	8.8	0.5	14.0	23.3
Technical Assistance	<u>0.7</u>	-	<u>1.0</u>	<u>1.7</u>
Total	9.5	0.5	15.0	25.0

Estimated Disbursements:

<u>Bank Fiscal Year</u>	<u>Annual</u>	<u>Cumulative</u>
1975	0.3	0.3
1976	7.0	7.3
1977	5.9	13.2
1978	1.7	14.9
1979	0.1	15.0

Procurement Arrangements:

Contracts for civil works and equipment would be awarded on the basis of international competitive bidding in accordance with the Bank's Guidelines for Procurement. A preference of up to 15 percent or the applicable customs duties, whichever is lower, would be applied to bidders offering locally manufactured goods.

Technical Assistance:

See (b) under project description above.

Rate of Return:

The economic rate of return for the project as a whole is estimated to be of the order of 28 percent.

Appraisal Report:

546-KO dated December 6, 1974.

